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STATE PASS TO USTR FOR C. HAMILTON
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SUBJECT: THE FIRST IMF FINDINGS REVIEW OF NIGERIA PSI

11. Summary: On February 28, the International Monetary Fund (IMF) review team debriefed the international community on their six-month assessment of Nigeria's Policy Support Instrument (PSI). They said the PSI was "on track", and that all benchmarks have been met, except for the late submission of the Nigeria Extractive Industry Transparency Initiative's (NEITI) first interim report. When asked about the potential impact of the higher reference price for oil in the 2006 budget, the team was non-committal. End summary.

12. An IMF review team in Nigeria from February 15-28 briefed the international community on the results of the six month assessment of Nigeria's PSI on February 28. The final report of the IMF assessment will be presented to the Fund's Management and then to the Executive Board for discussion by mid April. Overall growth and performance were good, fiscal policy was on track and measures had been taken to strengthen monetary policy during the second half of 2005. The "core" inflation rate was down and had been in the single digits for the past two to three months.

13. During this period the Central Bank of Nigeria (CBN) used an exchange rate band but, in the long term, the CBN was looking to have more exchange rate flexibility. The CBN had established a Monetary Policy Department and issued a policy statement in mid-February that stated its intention to have a more flexible exchange rate and to extract liquidity from the market. On structural performance all the targets were met except for the first interim NEITI audit. It was originally scheduled to be completed in December 2005, but was completed in early January 2006.

14. Looking forward, the Executive Board of the IMF wanted the reforms to continue in several areas, including budget and monetary policy, the reduction of civil servants and public expenditure tracking. The areas that the IMF wants the reforms to be extended are privatization and the expansion of "due process" (anti-corruption and public procurement) from the federal to state level (Six pilot states have been selected). New areas of reform include customs and trade facilitation and the passage of key legislation on fiscal responsibility.

15. Though the GON's reforms are very ambitious, the IMF team noted the GON showed no signs of reform fatigue, a good indicator that things were slowly beginning to turn around. The enactment of reform-related legislation like the Public Procurement Bill and the Fiscal Responsibility Bill would help to institutionalize reforms.

¶6. Comment: Macroeconomic reforms are still fragile and can still be subjected to shocks to the economy. The recently passed budget has increased the benchmark price for oil from US\$33 to US\$35 per barrel, and the CBN Governor, Charles Soludo has criticized this change for its potential inflationary impact. When questioned about this the IMF review team was non-committal. Though the "core" inflation rate has gone down to a single digit, the "headline" inflation rate, which covers essential food items, remained in double digits at the end of 2005. The National Bureau of Statistics had the year-on-year inflation rates as of October 2005 declining from 23.1% to 22.1%. Financial Derivatives Company Limited, a Lagos-based economic think tank also concurred on the decline of the year-to-year inflation rate from 24.9% to 24.2% during the same period. In contrast, the CBN had the year-to year inflation rate at 11.9% and the 12 month average inflation rate at 17.9% in its monthly report for December 2005. The problems in the Niger Delta have reduced petroleum output and therefore the revenues upon which the budget was based. Prolonged interruptions of significant levels of oil production are an even more serious concern. End Comment.

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